

His Excellency Mr Ishigaki, Senior Vice President and Executive Officer of Hitachi, Guests of Honour, distinguished speakers, young leaders, dear students from seven countries, ladies and gentlemen, good morning.

First of all, allow me to express my appreciation and sincere thanks to Hitachi for inviting me to speak at this very prestigious forum. I believe that the time is right for us to prepare the region to face the challenges posed by the ever-changing global environment.

Let us now turn to the issue of China and India. China is now the world's third largest trader and the largest trader in Asia, having overtaken Japan in 2004. China is a major trade partner to the ASEAN countries, and is also Japan's largest supplier and second largest export market, as well as Korea's second largest supplier and largest export market. China's imports have been growing at about 18% per year for the past decade, and its imports constitute 31% of its GDP. This figure is triple that of Japan's 9%, and the USA's 12%.

China sources more than half of its imports from East Asia. It is because of China that more than half of East Asia's trade happens within the region, a degree of integration that now parallels that of the European Union. Asia has grown in importance: current data shows that Asia, and not the USA, as been the main driver of global demand, powering the world economy through its fastest five-year period of growth since the early 1970s. Asia is producing and consuming at a greater rate than the rest of the world. And ASEAN's consumers are willing to spend vast amounts on anything from mobile phones to designer clothes.

Now is the time for us to position Asia as an integrated region, in order to shift from the historical perspective in the colonial era. ASEAN's deindustrialisation was due to the effects of at least two factors. Firstly, the unequal terms of trade and commerce which the colonising countries imposed by force. Competition from European manufactured goods on the Indian and Chinese markets had taken place under the pretext of free trade, which turned out to be anything but free, since the colonialists were compelled to open their borders unilaterally to European products without any quid pro quo.

Secondly, Europe had acquired a decisive lead in technology. The rise of mechanisation brought about a major increase in productivity, resulting in an explosive growth of manufactured goods with lower production costs. China and India adopted a major and gradual approach to liberalisation in order to make the shift to a more productive economy and a bigger business approach. In recent decades, investments in China generated far more growth than in India. While the average investment rate in China was 60% higher than in India, its growth exceeded that of India by a greater margin, 10.1% against 5%. This relation appears to have been reversed recently, as China has deepened its integration into the global economy at a faster pace and experienced a surge in inflows of FDI, an investment boom and rapid growth of exports and imports. Between 2000 and 2005, investment in India has generated more growth than in China.

WHAT CHINA AND INDIA'S ECONOMIC DEVELOPMENT CAN BRING TO ASIA

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by

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Growth miracles are a result of a dramatic shift towards more productive firms and better forms of industrial organization. These same situations also translate to India and China, where India leads the market in offshore back-office services, but lags behind China, Thailand and the rest of Asia in terms of its prowess as a manufacturing center. With high-skill sectors accounting for almost 40 percent of the manufacturing output of India, it is in a good position to absorb some of that increase. India also offers abundant engineering and technical talent. Every year it produces 400,000 graduate engineers, second only to China's yearly output of 490,000.

A common explanation for why LDCs are poor is that they have poor institutions which result in high barriers to capital and technological accumulation and entry. These translate into low levels of capital, productivity and output. Capital goods are more expensive to acquire in poor countries than in rich ones, and this translates into low levels of capital. How about India? Multinational companies operating in India must overcome erratic electric supplies, poor roads, and gridlocked seaports and airports. But the country has certain unique offerings, especially in dealing with human resources. Abundant talent in the engineering and technological fields are among the main factors in drawing foreign investment to India.

Automakers in developed markets must contend with twin pressures: to innovate and, at the same time, to reduce costs. On the one hand, they must not only develop expensive new features to please consumers but also ratchet up their environmental and safety standards; on the other, the base price of a car is expected to remain flat over the next decade. This combination of factors is pushing companies to source more components from places where costs are lower. As a result, outsourcing in this sector could be worth \$375 billion by 2015, up from \$65 billion in 2002. I think that India could capture up to \$25 billion of this amount, to become (along with China, Mexico, and Thailand) one of the developing world's top sourcing bases. Already, out of a sample of more than 400 Indian suppliers, 80 percent have ISO 9000 certification—the international standard for quality management.

India also has prospects in the speciality chemical industry. When multinationals evaluate India as a hub for offshore manufacturing and sourcing, its engineering capacity and existing network of suppliers and related companies are important inducements. But before the manufacture of electrical and electronic products can take off, the country must address three issues: low domestic demand, a lack of manufacturing clusters, and an unreliable transportation infrastructure. With these weaknesses in mind, I think other countries such as Vietnam, Indonesia, Thailand and other East Asian countries can seize the opportunity to upgrade themselves; to absorb more and more the need for expansionary effort by MNCs.

In the area of research, India faces stiff competition from China, Russia, and the United States, as R&D often gravitates to countries with large domestic markets for the resulting products. India enjoyed annual GDP growth of 6 percent from 2001 to 2004, for a total GDP of around \$600 billion, but that isn't enough to offset China's advantage. India also suffers by comparison because of its income distribution. China's wealthy elite is small compared with its large, fast-growing middle class; India's elite is relatively larger, but in 2002 some 74 percent of the country's households earned less than \$2,000, which weakens the domestic market's overall purchasing power.

China's pool of potential talent is enormous. In 2003 China had roughly 8.5 million young professional graduates with up to seven years' work experience and an additional 97 million people that would qualify for support-staff positions. Just one-quarter of all Chinese graduates live in a city or region close to a major international airport—a requirement of most multinationals setting up offshore facilities. Compounding that problem is a lack of mobility: only one-third of all Chinese graduates move to other provinces for work. By contrast, almost half of all Indian students graduate close to a major international hub, such as Bangalore, Delhi, Hyderabad, and Mumbai, and most are quite willing to move. As a result of these two factors, world-class companies that want to hire service labor in China have difficulty reaching as much as half of the total pool of graduates. I just read in a Vietnamese paper that Vietnam is currently facing a lack of professional talent. Perhaps, through the process of regional integration, all our countries can complement each other.

The labour market problem in China, India and industrial countries cannot be solved solely by the expansion of trade liberalisation through market integration and high economic rate of growth, because the problem originates primarily in

macroeconomic and financial policies. More importantly, massive unemployment and underemployment in developing solution should not be solely economic in nature, but also lies in greater political and social awareness. Last but not least, the emergence of China and India (including Vietnam) has contributed to insecurity among workers in Asia and the rest of the world, including Asian workers, as already indicated by widespread global unemployment and underemployment.



“ Now is the time for us to position Asia as an integrated region. ”